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To: Microsoft ATR
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Subject: Cogent argument for Microsoft's break-up

As a software entrepreneur, I must advocate the dissolution of MicroSoft into three separate entities:

- the operating systems company which is tightly monitored and regulated for compliance with anti-trust measures
- the productivity/entertainment software company which is more loosely monitored to ensure no anti-competitive alliances are created between it and the Operating Systems company
- the media company which is monitored as any other is by the FTC/FCC

By way of arguing my case:

Suppose a firm, MicroEngine Corp, had a 90%+ market share, a monopoly, on automobile engines. Suppose the US government has come to terms with MicroEngines that it shall not engage in anti-competitive behavior and is operating under a "consent decree".

Now suppose you were an entrepreneur who devised an inexpensive gadget and service, called a TuneUpNet. The gadget is designed to easily be added under the hood of any car with a MicroEngine, based upon their published engine specifications. The gadget would allow the details of engine performance to be transmitted via satellite to the service, which would inform you via email when your car needed an oil change or tuneup. No market currently exists for such a product because you are the first to devise it; it is clear that the cost of not getting oil changes and tuneups costs consumers so much in destroyed engines each year that there will certainly be a strong market for it. Supposing it is such a strong value proposition that you are able to raise the small amount of investment capital required to market it, and you bring it to market. You get rave preview writeups from all the trade magazines.

Now suppose in the same week that you release your product to the open market, that MicroEngine Corp. contacts you with a proposal to buy your company. It is clear the alternative, should you not accept is that they will announce they intend to compete with you directly. Because they need only announce such a change to their product, they win the market with no actual investment into product research and development on their part. Further, they claim that network monitoring technology is an "integral part" of the engine of the future, and therefore is within their market; the claim seems quite reasonable to judges who have no special expertise in the engine market, and any civil lawsuit on the matter would take a decade to resolve. The judgement, de facto, is that unless you sell out to

MicroEngine Corp, you go out of business.

Now imagine you are a competitor to MicroEngines, called GoodMachines, and you command 3% of the automotive engine market. Shortly after being approached by MicroEngine Corp, the head of TuneUpNet approaches you and suggests a deal to integrate his technology into your engines. However, it will require a great deal of custom technology research and development costs to make the product work with your product's published specifications nicely. It is unclear to you how much this will distinguish your product in the market; but it is clear that, if you don't do it, MicroEngine Corp will have a clear advantage. As you are a startup competitor to MicroEngine Corp, you do not have ample capital to finance development of this innovation, nor do you have the power to prevent it from gaining market share on its own. You go ahead with the deal at some significant risk and put a good deal of capital into financing a partnership with TuneUpNet that would work with your engines.

Three months later, MicroEngine Corp issues a press release stating the next year's version of their product line will have its own network reporting system built in, functionally identical to TuneUpNet. Three months after that, investors pull out of TuneUpNet, its market is sapped by the MicroEngines announcement. TuneUpNet can no longer continue in its partnership, and the integration work is left half completed, and you, take a significant loss. Neither GoodMachines or MicroEngines next years product line have the features of TuneUpNet integrated into it, TuneUpNet is forced out of business, and GoodMachines capital strength has been sorely hurt and cannot compete well at all.

This analogy is all you really need to understand the core of what ought to be done about the Microsoft case. The scenario Ive described has played out so many times in so many ways with MicroSoft using its operating system monopoly to crush what they view as "competitive" desktop productivity, entertainment, and network services. If senior management at Microsoft under its current corporate structure are to do their job effectively, they must use their clout in this way -- their job is after all to maximize shareholder value. The only way to structurally detach Microsofts operating systems dominance from any incentive or even ability to drown out competition in the market for productivity and entertainment software, is for its operating systems unit to become a separate, tightly regulated company.

Further, note that Microsoft has already succeeded in extending their monopoly to PC productivity software market (word processors, spreadsheets, email readers, web browsers). They have already been successful with Microsoft Office in effectively defeating Lotus

1-2-3, Wordperfect, and Netscapes Navigator and Messenger products along the way. Just as there has simply no competition against Microsoft's ability to use their established market in desktop operating systems to dominate the way the desktop PC software market evolves, there is now no competition for Microsoft to leverage its dominance in the PC productivity/entertainment software market into the emerging market for network services and other media-company type offerings. This is why the Productivity/Entertainment software business must also be spun out as a separate unit from its media businesses, which should form the remainder of the company.

To close with a word of encouragement: government, we the people, must maximize the broader social values at stake -- innovation, entrepreneurship, and fair competition. Legal structures exist to embody and enforce our highest values, not obfuscate and evade them. The protectors of such a system, the judges, must have the courage to act decisively when circumstances arise in which the veil of corporate secrecy and the power of corporate interests are in direct and ongoing conflict with our most fundamental ideas about the purpose of a corporation in human society and affairs to promote the general welfare through the innovation and competition inherent in the free enterprise system. Do not shrink from doing the right thing here -- America will be better off for it.

Thanks for reading,
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